M/001/027

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FILED
SEP 10 2003
SECRETARY, BOARD OF OIL, GAS & MINING

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

IN THE MATTER OF BASIN PERLITE COMPANY'S REQUEST FOR APPROVAL OF AN ESCROW ACCOUNT FOR ITS MINING OPERATIONS LOCATED IN BEAVER COUNTY, UTAH	DOCKET NO. 2003-011 CAUSE NO. M/001/027

1. Basin Perlite Company (Basin) requests approval of an escrow account to replace the bond now carried by Basin for the Pearl Queen Mine in Beaver County, Utah under M/001/027.

STATEMENT OF MATERIAL FACTS

2. Basin is a Colorado corporation in good standing and is qualified to do business as a foreign corporation in the State of Utah.

3. Basin controls certain mining claims on Federally-owned lands and holds a State of Utah Trust Lands Lease on lands in Beaver County, Utah, containing a perlite mining property known as the Pearl Queen Mine.

4. Basin utilizes a mining contractor to mine and haul its perlite produced from the Pearl Queen Mine, which perlite is processed at Basin's plant in Milford, Utah. This plant employs

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20 full-time personnel at present.

5. Basin and its predecessors have mined perlite at the Pearl Queen Mine since 1997, and the deposit of perlite there is estimated to be in excess of 28 million tons. The current production by Basin from the Pearl Queen Mine is 50,000 to 75,000 tons per year.

6. Basin has fully cooperated with the Utah Division of Oil, Gas and Mining (the Division) in all matters relating to its mine reclamation permit since starting operations in January, 2000. As of August 1, 2003,Basin is now returning all if its operating fines from its plant to the Shoo Pit in the Pearl Queen Mine in accordance with its permit on the Pearl Queen Mine, M/001/027. Basin, moreover, is continuing its on-going reclamation in the permit area.

CURRENT RECLAMATION LAW AND BASIN OBLIGATIONS

7. The statutes and regulations of the State of Utah require that upon permanent cessation of any mining operation, the operator shall complete the reclamation of the mine site. Further, these statutes require the mining operator to provide financial assurances, in the form of an approved reclamation contract and the holding of the surety payable to the State of Utah. Such surety can be a bond, a self-bonding agreement, an escrow account, or a certificate of deposit, each in the amount sufficient to meet all

reclamation obligations as determined by the Division to be adequate.

8. The existing bond which Basin has provided is with the American Manufacturers Mutual Insurance Company(Bond I) for $133,600.00 and was so provided in July, 2001.

9. The Division advised Basin under date of May 19, 2003, that the rating on Bond I was not A-(under the A. M. Best's Key Rating Guide) as required by the Division's Administrative Rules. Basin was granted 120 days from Basin's receipt of such notification to provide proof that Bond I was either rated A- or better or replace Bond I with another surety that met this requirement. Bond I, regardless of its rating, remains in effect until February 1, 2004.

10.The Division approved Basin's Intention to Amend Large Mining Operations for its Pearl Queen Mine on May 28, 2003. As part of this approval, the Division estimated the reclamation obligation to be $133,600.00. Basin advised the Division by telephone that Basin would maintain Bond I at $133,600.00 and would search for alternative bonding sources or other methods of providing surety for the applicable reclamation obligation.

SURETY OBLIGATIONS AND ALTERNATIVES

11. During the period of June and July, 2003, Basin investigated alternative bonding sources with at least A- ratings to replace Bond I. Of the various bonding concerns contacted all

would require Basin to establish a non-refundable, no-recourse cash deposit of $133,600.00 with that concern prior to its writing a bond for $133,600.00.

12. Under date of July 17, 2003, Basin submitted a proposal to the Division that would in part provide an annuity for reclamation upon cessation of mining operations and included reductions of the reclamation obligation of $133,600.00 as Basin completed reclamation work. At the end of 12 years, either the annuity or the accumulated reclamation would offset the full reclamation obligations of $133,600.00.

13. Under date of August 5, 2003, the Division advised Basin that the proposal described in the preceding paragraph was unacceptable because the pay-in amount was too small and the 12-year time frame was too protracted. In the same notification the Division proposed that Basin pay into escrow $33,400.00 for four years, a total of $133,600.00 at the time of the last payment.

14. Under date of August 12, 2003, Basin requested the Division to grant Basin a 60-day extension of the September 16, 2003, to indicate to this Board that Bond I was rated A- or better or replace it with another surety. Basin was accordingly granted until November 17, 2003, to accomplish these ends.

15. Under date of September 4, 2003, Basin proposed as an alternative to the Division, one whereby Basin would pay into an

escrow account $22,267.00 for six years, or $133,802.00 after six such payments. As part of this proposal all interest on this account would be payable to Basin.

16. Basin is currently paying an annual premium of $1,500.00 on Bond I. The proposed payment of $22,267.00 is an increase of $20,767.00 in annual surety costs. The bond market for any type of bond reclamation surety other than full cash deposit is no longer available to mining companies nor is there any indication that of when and if bonding companies will again provide bonds for mining operations.

17. Basin is submitting herewith as Exhibit A a photocopy of of the 2002 Audited Financial Statements of Basin. Since the start of operations in 2000, Basin has doubled it sales each year: $477,000.00 in 2000; $796,000.00 on 2001; and $1,756,000.00 in 2002. Basin's majority shareholder, Resource Capital Funds, has continued to fund all cash shortfalls, and there is no indication that said Resource Capital Funds would not continue to fund any such cash shortfall as Basin has continued to increase sales.

18. As provided in the statutes of the State of Utah, it is possible for companies, such as Basin, to establish an escrow fund to cover its maximum potential reclamation liabilities. Basin, therefore, proposes to establish any escrow fund of $133,600.00 as follows:

(a) Within 15 days after approval by this Board, Basin would enter into an Escrow Agreement with the Division;

(b) Basin would initially deposit the sum of $22,267.00 in the Escrow Fund (the Escrow Fund) within five business days after execution of the Escrow Agreement and provide proof of this deposit to the Division;

(c) Thereafter, Basin would make five annual payments of $22,267.00 each into the Escrow Fund, making a total of $133,602.00 by the end of the six-year period and meeting the surety requirements of the Division.

(d) All interest earned by the Escrow Fund would be paid to Basin.

(e) Should the Division determine at the time of the Division's permit review that Basin has completed significant reclamation in the permit area, the Division would consider reducing the amount of any payment to be made into the Escrow Fund.

CONCLUSION

19. Basin respectfully prays for the following relief, viz:

(a) This Board approve the establishment of the Escrow Fund as a replacement of Bond I.

(b) This Board approve the payment by way of a down-payment into the Escrow Fund by Basin of $22,267.00 and thereafter annual payments of $22,267.00 for five years,making a total of $133,602.00 so paid into the Escrow Fund, subject to diminution as the Division shall determine that Basin has theretofore completed reclamation as required by law.

Respectfully submitted this 9th day of September, 2003.

Melvin E. Leslie

MELVIN E.LESLIE
Attorney for Basin Perlite Company

EXHIBIT A

BASIN PERLITE COMPANY

FINANCIAL STATEMENTS

Years Ended December 31, 2002 and 2001

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WHITLEY PENN

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders of
Basin Perlite Company

We have audited the accompanying balance sheet of Basin Perlite Company, a Colorado corporation, as of December 31, 2002 and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended December 31, 2001, were audited by Jackson & Rhodes P.C., who merged with Whitley Penn as of June 1, 2002, and whose report dated May 31, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Basin Perlite Company as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As reflected in the accompanying financial statements, the Company incurred a net loss of $1,587,648 during the year ended December 31, 2002, and, as of that date, had a working capital deficiency of $6,907,081 and an accumulated deficit of $4,362,085, as described more fully in Note B to the financial statements. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Whitley Penn

Dallas, Texas
June 3, 2003

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BASIN PERLITE COMPANY
BALANCE SHEETS

	December 31, 2002	December 31, 2001
Assets		
Current assets:		
Cash	$ 32,365	$ 351,801
Accounts receivable, less allowance for doubtful accounts of $20,433 in 2002 and $22,910 in 2001	234,610	166,211
Inventories	20,655	52,447
Other current assets	18,647	19,687
Total current assets	306,277	590,146
Mineral reserves, net of accumulated depletion of $61,981 in 2002 and $30,766 in 2001	3,419,899	3,451,114
Property, plant and equipment, net	4,911,349	5,482,775
	8,331,248	8,933,889
Deferred financing costs, net of accumulated amortization of $17,422 in 2002 and $11,615 in 2001	14,035	19,842
Restricted cash	65,909	65,337
Total assets	$ 8,717,469	$ 9,609,214
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 608,383	$ 388,642
Accrued liabilities	712,755	358,593
Note payable to principal stockholder	2,600,000	2,600,000
Current portion of long-term debt	3,292,220	3,449,693
Total current liabilities	7,213,358	6,796,928
Long-term debt, less current portion	871,229	902,672
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, no par value, 50,000 shares authorized 3,810 and 3,611 shares issued and outstanding in 2002 and 2001, respectively	5,032,680	4,759,480
Accumulated deficit	(4,362,085)	(2,774,437)
Deferred warrant expense	(37,713)	(75,429)
Total stockholders' equity	632,882	1,909,614
Total liabilities and stockholders' equity	$ 8,717,469	$ 9,609,214

See accompanying notes.

BASIN PERLITE COMPANY
STATEMENTS OF OPERATIONS

	Year Ended December 31, 2002	Year Ended December 31, 2001
Net sales	$ 1,903,954	$ 823,386
Cost of products sold	1,952,757	1,094,595
Gross loss	(48,803)	(271,209)
Operating expenses:		
Production overhead	232,314	182,621
Depletion, depreciation and amortization	549,402	278,473
General and administrative	498,355	455,559
Total operating expenses	1,280,071	916,653
Loss from operations	(1,328,874)	(1,187,862)
Other expenses:		
Interest expense	231,443	263,093
Other expenses	27,331	-
	258,774	263,093
Net loss	$ (1,587,648)	$ (1,450,955)

See accompanying notes.

BASIN PERLITE COMPANY

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

	Common Stock		Accumulated Deficit	Deferred Warrant Expense	Total Stockholders' Equity
	Number of Shares	Amount			
Balance at December 31, 2000	3,138	$ 4,110,118	$ (1,323,482)	$ (113,145)	$ 2,673,491
Common stock issued for cash	473	649,362	-	-	649,362
Net loss	-	-	(1,450,955)	-	(1,450,955)
Deferred warrant expense amortization	-	-	-	37,716	37,716
Balance at December 31, 2001	3,611	4,759,480	(2,774,437)	(75,429)	1,909,614
Common stock issued for cash	199	273,200	-	-	273,200
Net loss	-	-	(1,587,648)	-	(1,587,648)
Deferred warrant expense amortization	-	-	-	37,716	37,716
Balance at December 31, 2002	3,810	$ 5,032,680	$ (4,362,085)	$ (37,713)	$ 632,882

See accompanying notes.

BASIN PERLITE COMPANY
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2002	2001
Operating activities:		
Net loss	$ (1,587,648)	$ (1,450,955)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion, depreciation, and amortization	549,402	278,473
Loss on the sale of equipment	27,331	-
Changes in assets and liabilities:		
Accounts receivable	(68,399)	(37,886)
Inventories	31,792	109,757
Other current assets	1,040	25,016
Restricted cash	(572)	(2,058)
Accounts payable and accrued liabilities	573,903	278,959
Net cash used in operating activities	(473,151)	(798,694)
Investing activities:		
Purchase of furniture and equipment	(20,569)	(2,971,973)
Proceeds from the sale of furniture and equipment	90,000	-
Net cash provided by (used in) investing activities	69,431	(2,971,973)
Financing activities:		
Common shares issued for cash	273,200	649,362
Proceeds from long-term debt	-	1,700,000
Payments on long-term debt	(188,916)	(140,011)
Net cash provided by financing activities	84,284	2,209,351
Net decrease in cash	(319,436)	(1,561,316)
Cash at beginning of year	351,801	1,913,117
Cash at end of year	$ 32,365	$ 351,801
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 100,711	$ 176,846

See accompanying notes.

BASIN PERLITE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

A. Nature of Business

Basin Perlite Company (the "Company") was incorporated in Colorado in October 1999. The Company is primarily engaged in the production of an industrial mineral called perlite, from an open pit mine near Milford, Utah. The perlite rock is trucked from the mine to the plant located adjacent to the town of Milford, Utah, where it is dried, crushed and screened into sizes to meet customer specifications. The sized material is stored and then shipped by truck and rail as bulk or packaged perlite rock to customers in the United States, Canada and Mexico to be used by customers in various construction products such as ceiling tile, horticulture mixes and metallurgical processes. The Company also produces a fine expanded perlite called microspheres which is used as a taping and texturing compound in the construction industry. The Company's corporate office is located in Denver, Colorado.

B. Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficit and an accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Additionally, the Company has limited revenues and has sustained continuing operating losses. Management plans to increase revenues in 2003 to a level that the Company will be cash flow positive and attain additional sources of capital to fund operations, but there are no guarantees management will be able to achieve this plan. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

BASIN PERLITE COMPANY

NOTES TO FINANCIAL STATEMENTS - *(continued)*

B. Accounting Policies - continued

Cash

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2002 and 2001 no such investments were included in cash.

The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). At December 31, 2002 no amounts exceeded FDIC limitations. At December 31, 2001 approximately $252,000 exceeded FDIC insurance.

Accounts Receivable

The Company performs ongoing credit evaluations of its customers' financial condition and extends credit to virtually all of its customers. Credit losses to date have not been significant and have been within management's expectations. In the event of complete non-performance by the Company's customers, the maximum exposure to the Company is the outstanding accounts receivable balance at the date of non-performance.

Inventories

Inventories consist of unprocessed and processed ore and are stated at the lower of average cost, which approximates actual cost determined on a first-in, first-out ("FIFO") basis or market.

Depreciable Properties

Property, plant and equipment and mineral reserves are stated at cost. Property, plant, and equipment are depreciated using the straight-line method over the estimated useful life of the asset, ranging from 3-20 years. Depletion and amortization of mineral reserves are provided as the minerals are extracted, based on units of production and engineering estimates of mineable reserves. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Upon sale or abandonment, the cost of the equipment and related accumulated depreciation are removed from the accounts and any gains or losses thereon are recognized. Expenditures for maintenance and repairs are charged to expense as incurred. Costs related to construction-in-progress are capitalized until the asset is placed in service, at which time the asset is depreciated in accordance with the polices herein described.

B. Accounting Policies - continued

Impairment of Long-Lived Assets

The carrying value of property and equipment is periodically evaluated under the provisions of Statements of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets and certain identifiable intangibles to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is determined that the estimated future net cash flows of an asset will not be sufficient to recover its carrying amount, an impairment loss is recorded to reduce the carrying amount to its estimated fair value.

Mine Reclamation Costs

The estimated net future costs of dismantling, restoring, and reclaiming operating mines in accordance with federal, state, and local regulatory requirements are completed on an ongoing process as areas are depleted. A bond has been posted in the state of Utah as required related to mine reclamation, and the Company believes this bond is more than adequate to cover incomplete mine reclamation costs at any time based on the Company's operations.

Deferred Financing Costs

Deferred financing costs consist of loan origination costs, which are being amortized over the term of the related debt principal. Amortization is included in depletion, depreciation, and amortization.

Revenue Recognition

Revenue is recorded when legal title passes at the time of shipment to the customer.

Income Taxes

The Company is taxed as a "C" corporation under the Internal Revenue Code, as such the Company accounts for income taxes using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

B. Accounting Policies - continued

Fair Value of Financial Instruments

In accordance with the reporting requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accounts receivable and accounts payable approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of the notes payable and long-term debt also approximates fair value given that it bears a market rate of interest. None of the financial instruments are held for trading purposes.

Stock Based Compensation

The fair market value of equity instruments issued to employees and non-employees for services rendered is evaluated under the provisions of SFAS No. 123, *Accounting for Stock Based Compensation.* SFAS No. 123 requires compensation cost to be measured at the grant date based on the value of the award and expensed in the period the services were rendered. However, SFAS 123 also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which the Company has elected.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

C. Inventories

Inventories consist of the following:

	December 31, 2002	December 31, 2001
Unprocessed at mine	$ -	$ 36,846
Unprocessed at plant	4,140	1,330
Processed at plant	9,750	13,200
Parts and supplies	6,765	1,071
	$ 20,655	$ 52,447

BASIN PERLITE COMPANY

NOTES TO FINANCIAL STATEMENTS - *(continued)*

D. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31, 2002	December 31, 2001
Buildings	$ 904,916	$ 904,916
Plant Equipment	4,769,153	4,903,579
Site Work	41,985	41,985
Leasehold improvements	3,413	3,413
Office equipment and furniture	44,166	32,971
	5,763,633	5,886,864
Less: Accumulated depreciation	852,284	404,089
	$ 4,911,349	$ 5,482,775

E. Restricted Cash

The Company is required to keep, at a minimum, three months of loan payments to Key Bank in a money market account held by Key Bank. The money market account bears an interest rate of approximately 1% at December 31, 2002. Gains from interest earned are reinvested into the restricted cash account.

F. Long-term Debt

As of December 31, 2002 and 2001 the Company was in violation of its loan covenants for the note to Key Bank. This violation gives the lender the right to accelerate payment of this note. Accordingly, the amount due to Key Bank has been classified as a current liability.

F. Long-term Debt - continued

Long-term debt consists of the following:

	December 31, 2002	December 31, 2001
Note payable to Key Bank, payable in monthly installments of $20,091, including interest at LIBOR plus 3%, matures May 31, 2005, secured by all the assets of the Company.	$ 1,509,137	$ 1,670,377
Note payable to Pearl Queen Perlite, interest payable quarterly at LIBOR, matures December 31, 2004, unsecured and subordinate to Key Bank debt.	400,000	400,000
Note payable to North Pearl Queen, unsecured, payable through 10% of annual after tax cash flow of the Company, not to exceed $50,000 per year, compensation of interest is paid through a 2% royalty interest of the Company's gross sales.	490,000	490,000
Note payable to Resource Capital Fund L.P. ("RCF") (related party), interest payable monthly at LIBOR plus 2.5% and is payable in cash or Company common shares at $1,373 per share, payable on demand in cash or Company common stock at $1,373 per share, secured by all the assets of the Company.	1,700,000	1,700,000
Note payable to Caterpillar Financial Services Corporation, payable in monthly installments of $3,079, including interest at 5.5%, matures September 18, 2004, secured by the Caterpillar equipment.	64,312	91,988
	4,163,449	4,352,365
Less: Current portion	3,292,220	3,449,693
	$ 871,229	$ 902,672

BASIN PERLITE COMPANY

NOTES TO FINANCIAL STATEMENTS - *(continued)*

F. Long -term Debt - continued

Future maturities of long-term debt as of December 31, 2002 consists of the following:

2003	$ 3,292,220
2004	481,229
2005	50,000
2006	50,000
2007	50,000
Thereafter	240,000
	$ 4,163,449

G. Related Party Transactions

Note Payable to Principal Stockholder:

A loan made by RCF, a Cayman Islands limited partnership, on December 28, 1999 was in the amount of $ 2,600,000. The outstanding principal amount of the loan from time-to-time bears simple interest at an annual interest rate equal to the London Interbank Offered Rate ("LIBOR") for 30-day funds. Interest is payable upon demand. Interest thereon and other amounts due with respect thereto are subordinated, pursuant to a subordination agreement reasonably acceptable to RCF, to the obligations of the Company to pay amounts to Key Bank under all loan arrangements between the Company and Key Bank. The Company may prepay this loan at any time without penalty.

See footnote F for information regarding a related party note to RCF in the amount of $1,700,000.

The Company has agreed to reimburse RCF for all costs and expenses incurred, including reasonable attorney fees, in establishing, funding, administering and collection of related loans, and all interest and other amounts payable by the Company with respect thereto.

G. Related Party Transactions - continued

Consulting Agreement:

A consulting agreement was made and entered into on December 28, 1999 with the majority owner of Pearl Queen Perlite Company ("PQPC"), now a minority shareholder in the Company. The independent consultant's agreement was for a two-year period ending December 28, 2001 at an annual rate of $15,000, payable monthly. In 2002 this contract was renewed on a year to year basis at an annual rate of $18,000, payable monthly. All reasonable and necessary expenses incurred in the connection with the consulting services provided will be reimbursed. The agreement contains a "no competition" clause enforceable for a two-year period upon termination of the consulting agreement.

H. Common Stock and Deferred Warrants

RCF acquired 1,694 shares of stock for cash of $1,372 per share (approximately $2,325,000) in December 2000. In connection therewith, the Company issued RCF warrants to purchase 1,894 shares at $1,372 per share, of which 1,631 are still outstanding. The warrants expire in December 2003. In accordance with SFAS No. 123, the Company accounted for warrants issued to non-employees for services rendered using the fair value method. The Company recorded $113,145 of deferred warrant costs based on the fair value of the warrants on the grant date using the Black-Scholes option pricing model. At December 31, 2002, $37,713 of deferred warrant costs remain to be amortized.

I. Income Taxes

The significant components of the Company's net deferred tax assets/liabilities are as follows:

	December 31, 2002	December 31, 2001
Net operating loss carryforwards	$ 1,704,000	$ 1,164,000
Property, plant and equipment	(242,000)	(242,000)
	1,462,000	922,000
Valuation allowance	(1,462,000)	(922,000)
	$ -	$ -

For tax purposes, the Company has a net operating loss carryforward amounting to approximately $4,900,000, which will expire, if not utilized, beginning in 2014.

J. Commitments and Contingencies

The Company leases certain equipment and office facilities under various operating leases, of which rent expense was approximately $95,000 and $75,000 for the years ended December 31, 2002 and 2001, respectively.

Future minimum lease obligations as of December 31, 2002 consists of the following:

2003	$ 116,000
2004	51,000
2005	48,000
2006	48,000
2007	24,000
	$ 287,000

K. Risk Concentrations

For the year ended December 31, 2002 the Company had four customers, which accounted for approximately 21%, 10%, 13%, and 13%, respectively, of the Company's accounts receivable balance. At December 31, 2001 the Company had two customers, which accounted for approximately 39% and 31%, respectively, of the Company's accounts receivable balance.

For the year ended December 31, 2002, the Company had four customers that accounted for approximately 20%, 13%, 13%, and 13%, respectively, of total revenues. For the year ended December 31, 2001, the Company had four customers that accounted for approximately 40%, 15%, 15%, and 11%, respectively, of total revenues.

L. Subsequent Event

Subsequent to year end the Company took out a note payable with Union Pacific Railroad, which approximated $153,000. Also subsequent to year end the Company received approximately $400,000 in relation to the issuance of common stock.

M. Measured, Indicated and Inferred Perlite Reserves and Resources (Unaudited)

The Company's estimate of measured, indicated and inferred perlite ore reserves and resources are set forth in the following table. James D. Rasmussen, a North American Exploration, Inc. geologist, in a November 1, 1996 reserve report, Geology and Reserves of the Pearl Queen Perlite Deposit, determined these reserves and resources. Determination was made by mapping three contiguous lease sections by drilling, sampling, assaying and evaluation methods generally used by the mining industry. The approximate reserves and resources are in accordance with definitions provided in SEC guide #7.

The approximate reserves and resources are in accordance with definitions provided in SEC guide #7.

	(Unaudited) Tons
Measured (proven)	4,714,000
Indicated (probable)	7,165,000
Inferred	16,585,000
Total reserve and resource estimate	28,464,000